

Monday December 7, 2009

Closing prices of December 4, 2009

Last Sunday we said we doubted the negative Dubai bond repayment news would be a Lehman-like event that would send markets into a death spiral as some had predicted. That seems to have been correct as equities rebounded with the S&P 500 up 1.33% for the week.

This market reminds us of the TV show Sanford & Son. Whenever something went the wrong way for Fred Sanford (Redd Foxx) he would clutch his chest and say "I'm coming to join you Elizabeth, this is the big one!" Market participants have continually been looking for the event that will cause "the big one" and send equities plummeting. So far they have been disappointed.

There is no doubt that investors have become more selective, which we have been pointing out for weeks. We have also discussed the low volume environment which created a condition where news could cause sharp moves in either direction. Obviously we would be happier if buyers were more enthusiastic. Still, sellers are not aggressive, seasonality is positive, and the bullishness we were seeing on the part of options buyers has dissipated. Therefore, we continue to follow the primary trend of the market, which remains up.

Last week we also discussed the flight to safety into the U.S. Dollar caused by the Dubai announcement. We said that with the amazing inverse correlation seen recently between the Dollar and equities, further Dollar strength could put more pressure on stocks, and that the Dollar seemed to be attempting to bottom. Friday's Payrolls report and drop in the Unemployment Rate caused the Dollar to have its largest one-day rally since June.

Friday's jump in the Dollar did not hurt equities overall, but it highlighted sector rotation taking place as Materials and Energy were lagging sectors while the leader was Real Estate. Investors need to be cognizant of sector rotation at this time. We were happy to see the rebound in small and mid-caps, with small-caps leading major indexes higher on the week with a 3.99% gain. We said last week we were hoping to see the January Effect and a Santa Claus Rally, and strength in small-caps says investors are showing more willingness to take risk, which is something a healthy market needs.

**Therefore, with volume low and news able to create sharp moves in either direction, this remains a bifurcated short-term trader's market. Investors need to be careful regarding entry points. We repeat our advice of the last few weeks that positions they don't have a good reason to hold onto should be considered as a source of funds. Based on the S&P 500 the short-term, intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.**

**S&P 1500 Data:** Percent over 10-sma: 70.93%. Percent over 50-sma: 59.73%

13-Week Closing Highs: 166. 13-Week Closing Lows: 26. 52-week closing highs: 132.

Kaufman Options Indicator: 0.99 Put/Call Ratio: 0.848. New High Reversals: 23. New Low Reversals: 7

Volume: +26% versus yesterday. 156% of the 10-day average. 134% of the 30-day average.

Up Stocks: 85.63%. Up Volume: 80.79%. Up Points: 89.12%. Up Dollars: 96.81%, 229% of 10-sma. Down Dollars 9% of 10-sma.

## IMPORTANT DISCLOSURES

I, Wayne S. Kaufman, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

**THE INFORMATION PROVIDED IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY. INVESTORS SHOULD CONSIDER THIS REPORT AS ONLY A SINGLE FACTOR IN MAKING THEIR INVESTMENT DECISION. THIS INFORMATIONAL REPORT IS NOT AN OFFER TO SELL OR A SOLICITATION TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE ILLEGAL. THIS REPORT HAS BEEN PREPARED AS A MATTER OF GENERAL INFORMATION. IT IS NOT INTENDED TO BE A COMPLETE DESCRIPTION OF ANY SECURITY OR COMPANY MENTIONED, AND IS NOT AN OFFER TO BUY OR SELL ANY SECURITY. ALL FACTS AND STATISTICS ARE FROM SOURCES BELIEVED TO BE RELIABLE, BUT ARE NOT GUARANTEED AS TO ACCURACY. ADDITIONAL INFORMATION ON THESE SECURITIES AND COMPANIES IS AVAILABLE UPON REQUEST. SECURITIES, FINANCIAL INSTRUMENTS OR STRATEGIES MENTIONED HEREIN MAY NOT BE SUITABLE FOR ALL INVESTORS. THIS MATERIAL DOES NOT TAKE INTO ACCOUNT YOUR PARTICULAR INVESTMENT OBJECTIVES, FINANCIAL SITUATIONS OR STRATEGIES. BEFORE ACTING ON THE MATERIALS HEREIN, YOU SHOULD CONSIDER WHETHER IT IS SUITABLE FOR YOUR PARTICULAR CIRCUMSTANCES AND, IF NECESSARY SEEK PROFESSIONAL ADVICE. INVESTMENTS INVOLVE RISK AND AN INVESTOR MAY INCUR EITHER PROFITS OR LOSSES. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE. TRADING AND INVESTMENT DECISIONS ARE THE SOLE RESPONSIBILITY OF THE READER.**

	Daily	WTD	MTD	QTD	YTD
S&P Smallcap 600	2.32%	3.99%	3.56%	0.04%	18.17%
S&P Midcap 400	1.39%	2.68%	2.54%	1.61%	30.44%
Nasdaq Composite	0.98%	2.61%	2.32%	3.39%	39.14%
S&P 1500	0.68%	1.53%	1.16%	4.21%	22.89%
S&P 500	0.55%	1.33%	0.94%	4.63%	22.44%
Nasdaq 100	0.50%	1.50%	1.39%	4.24%	47.89%
NYSE Composite	0.36%	1.59%	1.27%	3.93%	24.76%
Dow Jones Industrials	0.22%	0.77%	0.43%	6.97%	18.37%
Bank of New York Mellon ADR	0.14%	2.22%	2.15%	4.63%	34.40%

	Daily	WTD	MTD	QTD	YTD
Financials	1.77%	2.38%	-0.35%	-2.41%	16.32%
Industrials	1.46%	2.25%	2.10%	5.79%	18.40%
Information Technology	0.87%	2.23%	1.94%	6.63%	54.40%
Consumer Discretionary	0.74%	1.26%	1.62%	5.77%	35.16%
Consumer Staples	0.45%	0.50%	1.00%	5.95%	13.05%
Telecom Services	0.21%	2.38%	2.86%	4.12%	0.94%
Health Care	0.07%	0.79%	1.06%	7.63%	16.10%
Utilities	-0.42%	3.86%	3.02%	3.87%	4.58%
Energy	-0.80%	-1.47%	-1.56%	4.44%	10.64%
Materials	-1.20%	0.50%	-0.17%	5.23%	42.96%

	Daily	WTD	MTD	QTD	YTD
Real Estate	2.85%	9.28%	4.62%	8.36%	19.14%
Commercial & Professional Services	2.44%	3.19%	3.60%	4.87%	10.84%
Semiconductors & Equipment	2.07%	7.28%	6.78%	4.76%	50.52%
Banks	1.89%	1.12%	-2.44%	-1.09%	-7.13%
Media	1.81%	2.95%	3.78%	5.16%	29.34%
Transportation	1.72%	3.16%	2.75%	11.02%	20.59%
Diversified Financials	1.67%	2.13%	-0.34%	-3.96%	31.35%
Insurance	1.40%	1.45%	-0.27%	-3.78%	10.37%
Capital Goods	1.31%	1.92%	1.79%	4.47%	18.57%
Food, Beverage & Tobacco	0.89%	1.05%	1.88%	5.71%	18.78%
Consumer Durables & Apparel	0.81%	1.48%	1.84%	2.03%	30.84%
Software & Services	0.68%	2.06%	1.51%	10.67%	50.75%
Technology Hardware & Equipment	0.67%	1.00%	0.98%	4.02%	58.51%
Automobiles & Components	0.66%	1.60%	0.34%	14.52%	104.83%
Consumer Services	0.38%	-0.82%	-0.96%	2.00%	15.94%
Health Care Equip & Services	0.34%	0.19%	0.68%	8.42%	27.41%
Telecom Services	0.21%	2.38%	2.86%	4.12%	0.94%
Food & Staples Retailing	0.10%	-0.86%	-0.60%	3.46%	6.55%
Retailing	0.04%	0.81%	1.33%	7.95%	45.93%
Pharmaceuticals, Biotech & Life Sciences	-0.06%	1.07%	1.25%	7.21%	11.42%
Household & Personal Products	-0.09%	0.70%	0.74%	9.01%	9.15%
Utilities	-0.42%	3.86%	3.02%	3.87%	4.58%
Energy	-0.80%	-1.47%	-1.56%	4.44%	10.64%
Materials	-1.20%	0.50%	-0.17%	5.23%	42.96%

### INTERNATIONAL ETFs

	Daily	WTD	MTD	QTD	YTD
China 25 FXI	1.45%	4.90%	3.73%	10.78%	55.83%
South Korea EWY	1.31%	6.50%	6.04%	-0.68%	68.25%
MSCI Emerging Markets EEM	0.92%	4.09%	3.26%	7.53%	67.56%
Vietnam VNM	0.64%	1.16%	-1.34%		
Hong Kong EWH	0.62%	4.10%	3.15%	5.41%	57.76%
Mexico EWW	0.50%	4.64%	5.72%	15.96%	56.96%
Singapore EWS	0.43%	2.33%	2.20%	8.00%	64.68%
Germany EWG	0.35%	1.32%	0.98%	2.39%	18.21%
France EWQ	0.30%	2.56%	2.59%	2.16%	26.76%
Netherlands EWN	0.29%	2.46%	2.77%	3.54%	39.08%
United Kingdom EWU	0.24%	-0.18%	2.21%	7.22%	35.76%
Taiwan EWT	0.08%	1.93%	1.47%	0.73%	63.50%
Japan EWJ	0.00%	6.21%	4.50%	0.50%	4.28%
Italy EWI	0.00%	2.18%	2.13%	-1.22%	23.00%
Austria EWO	-0.23%	0.51%	1.74%	-1.50%	65.98%
Spain EWP	-0.23%	1.05%	0.76%	3.02%	36.24%
Switzerland EWL	-0.31%	1.02%	1.67%	3.41%	21.14%
Australia EWA	-0.42%	2.97%	0.81%	4.07%	67.88%
BRIC EEB	-0.43%	2.29%	2.11%	12.00%	88.83%
Sweden EWD	-0.44%	0.57%	1.90%	6.56%	58.68%
Malaysia EWM	-0.55%	0.73%	0.64%	7.79%	49.93%
Latin America ILF	-0.63%	0.27%	1.84%	13.61%	91.40%
Belgium EWK	-0.73%	2.51%	2.50%	4.08%	54.87%
Brazil EWZ	-1.24%	2.98%	1.87%	15.17%	122.64%
Canada EWC	-1.30%	0.85%	0.00%	1.69%	48.65%

S&P 500 Cash (1,100.43, 1,119.13, 1,096.52, 1,105.98, +6.06)



The S&P 500 made a new intraday high Friday but not a closing high. The 20-sma was support once again, with the lower trend line of the rising bearish wedge seeming to have become resistance. Friday's high took the S&P 500 to within a couple of points of 1121, the 50% retracement of the entire bear market.

Negative divergences persist in our momentum indicators.



The weekly chart of the S&P 500 shows it made a new closing weekly high last week.

The weekly MACD is threatening a negative crossover.



The stochastic is showing a negative crossover but the RSI and MACD show an up trend in progress.

NASDAQ 100 (1,808.60, 1,815.60, 1,773.31, 1,791.91, +9.00)



It has been a very volatile couple of weeks for the Nasdaq 100 with gaps all over the chart. Unlike the S&P 500 and the Dow Jones Industrials the Nasdaq 100 has not been able to post new highs since mid-November.

Momentum indicators seem to be neutral.

NASDAQ 100 (1,762.99, 1,815.60, 1,750.88, 1,791.91, +26.45)

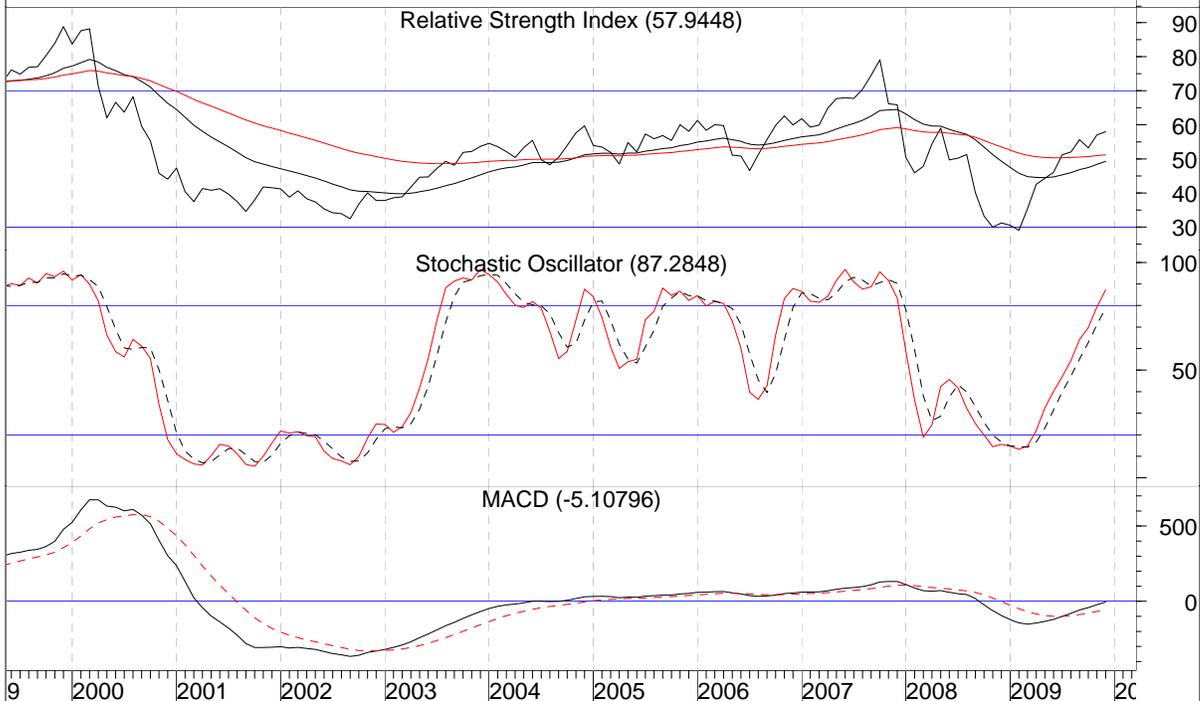


Weekly momentum indicators are neutral.

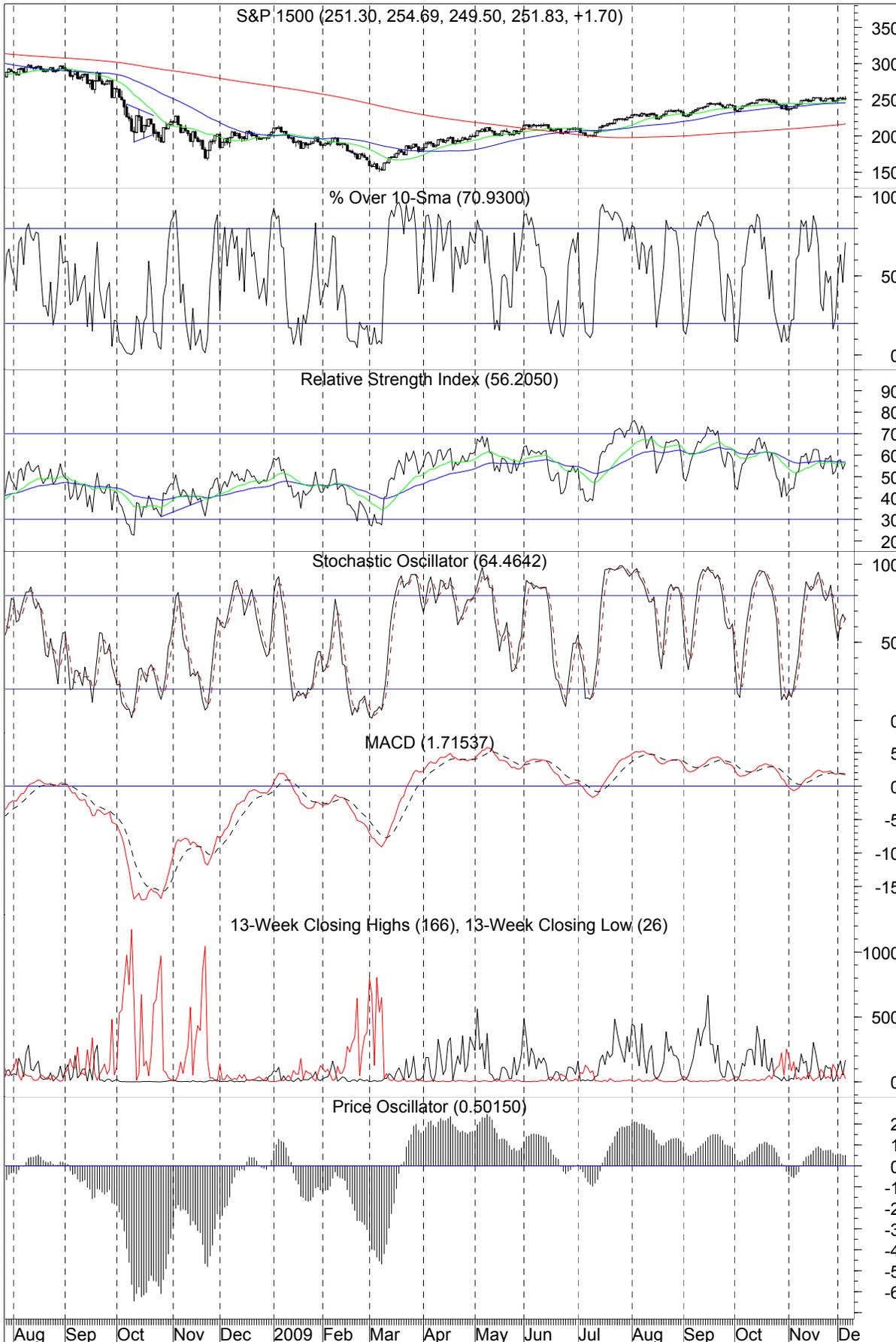
NASDAQ 100 (1,782.85, 1,815.60, 1,773.31, 1,791.91, +24.48)



The Nasdaq 100 has retraced 63.33% of the 2007 - 2009 bear market.



Monthly momentum indicators show on ongoing rally.

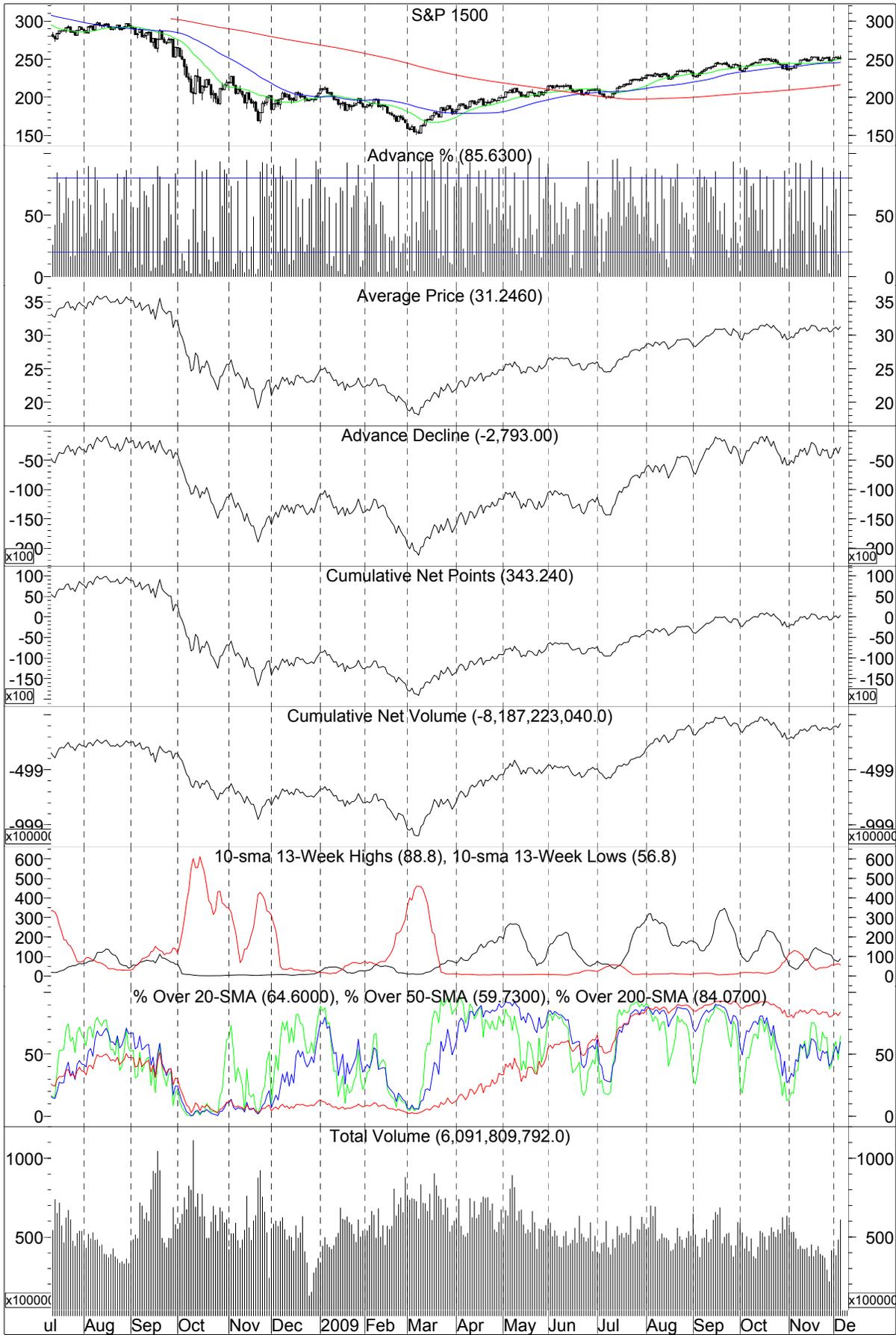


Momentum indicators are neutral.

Closing highs are showing a negative divergence, but are still above closing lows. This highlights market selectivity.

Our price oscillator, a good indicator of trends, remain in positive territory.

The Kaufman Report - Wayne S. Kaufman, CMT

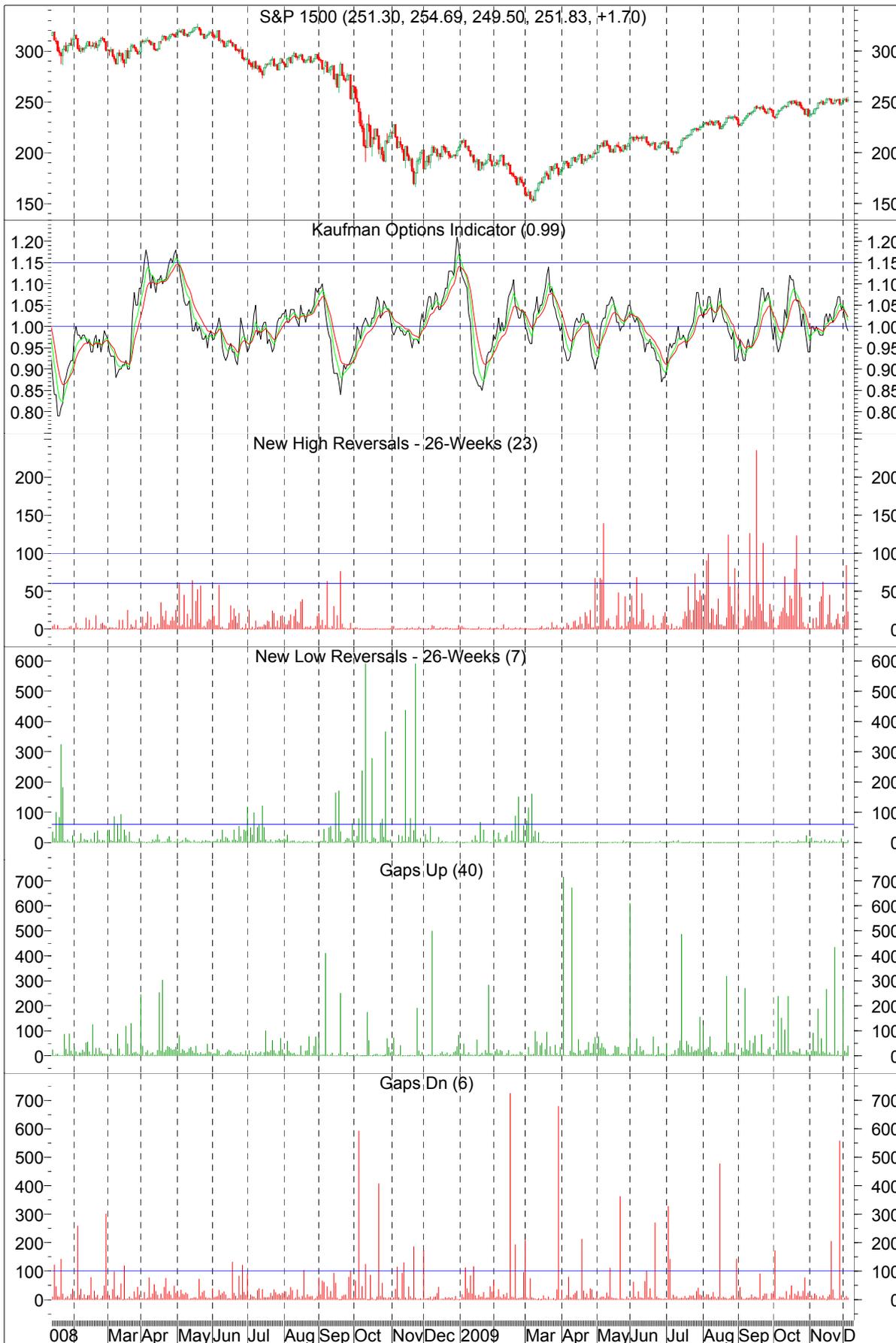


85.63% of stocks advanced Friday in spite of the roller coaster action.

The Advance Decline line continues to lag, a sign of increased selectivity.

The 10-sma of 13-week closing highs shows a negative divergence, but it is still above its counterpart of closing lows.

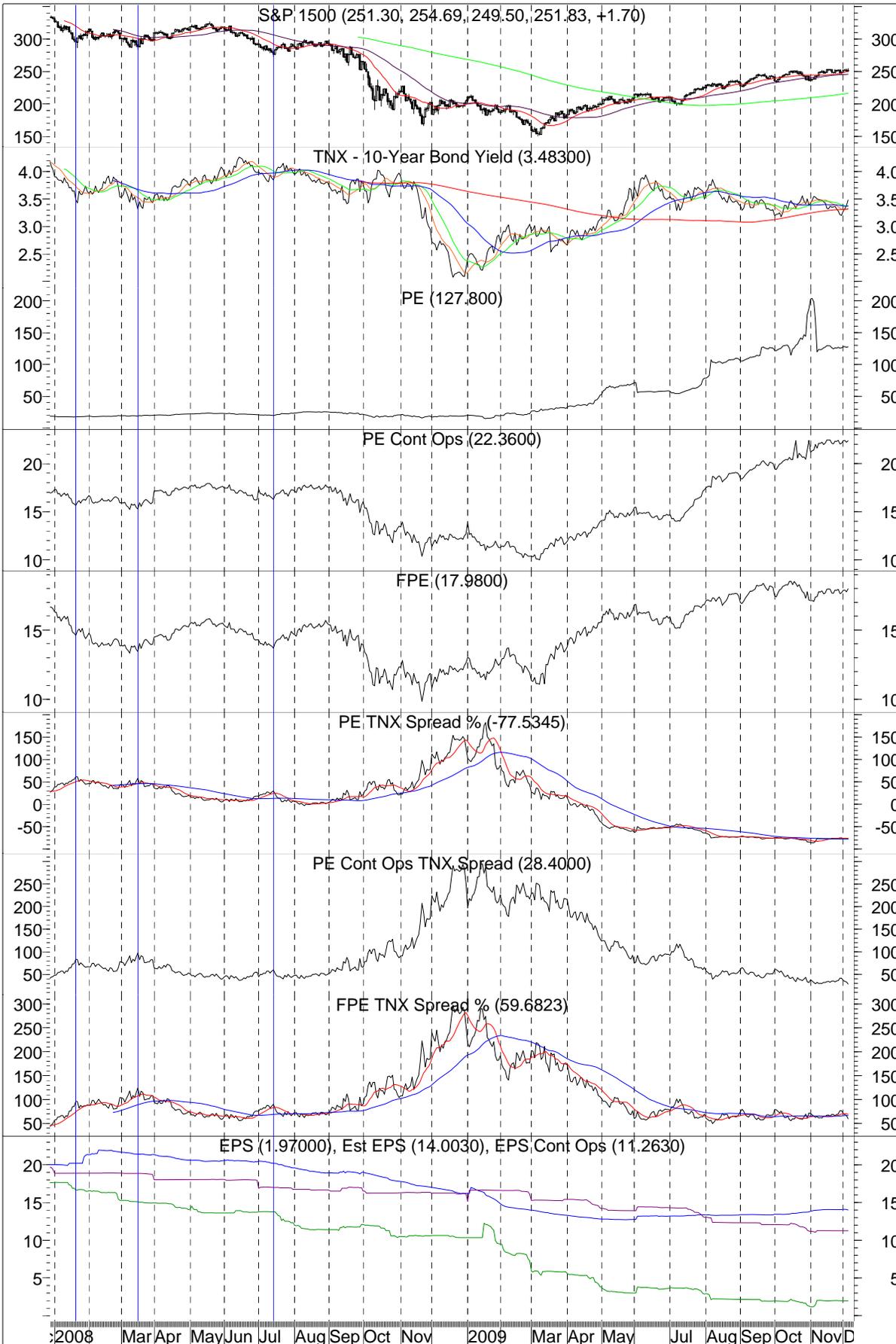
The percent over 20 and percent over 50-sma also highlight market selectivity.



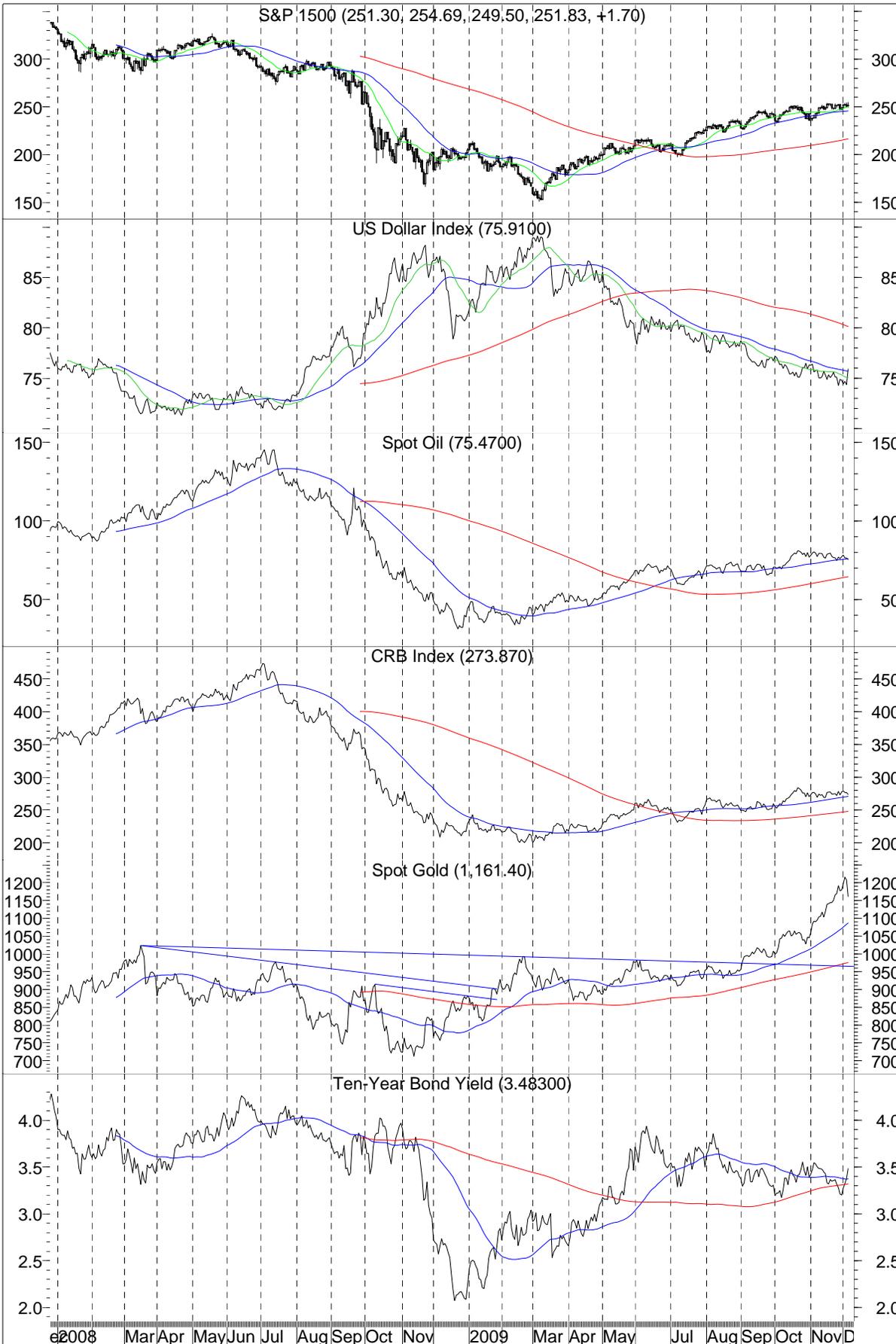
Our proprietary options indicator has moved to just below neutral from an over-bullish level. Optimistic options buyers can cause a rally to top, while a good dose of skepticism is needed to allow stocks to move higher.



Our statistics of supply (red) versus demand (green) show that while buyers have been reluctant recently, sellers are even more reticent. As we have been saying, under these conditions news can cause sharp moves in either direction, but with sellers on the sidelines and seasonality positive the path of least resistance could still be higher.



Spreads between bond and equity yields have been pretty much sideways for months. A jump in bond yields would change that and could be a negative for equities.



Last week we said the U.S. Dollar seemed to be trying to bottom. On Friday it had its biggest one-day rally since June. It closed above its 50-sma (blue) for the first time since April. There is room for a further rise, and if it continues to strengthen it will cause weakness in certain sectors of equities.

The overbought condition on the daily and weekly charts of gold finally kicked in causing a big drop Friday after all-time highs were made Thursday. Gold probably needs to consolidate or correct in what is still a long-term up trend.